

Message Text

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43

ACTION NEA-12

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COME-00 TRSE-00 FPC-01 INT-08 SCEM-02 /191 W

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FM AMEMBASSY TEHRAN

TO SECSTATE 4255

INFO AMEMBASSY LONDON

AMEMBASSY JIDDA BY POUCH

AMEMBASSY KUWAIT BY POUCH

C O N F I D E N T I A L TEHRAN 7507

E.O. 11652: GDS

TAGS: ENRG IR

SUBJ: NIOC-CONSORTIUM MEMBERS MEET ON 1974 BUDGET

1. SUMMARY: CONSORTIUM MEMBERS' TEAM BRIEFED AMBASSADOR OCTOBER 23 ON JUST-COMPLETED BUDGET PLANNING MEETING WITH NIOC. TEAM SATISFIED THERE IS GOOD DEAL OF AGREEMENT ON PLANS, BUT MENTIONED SECONDARY RECOVERY AND GAS EXPLOITATION AS TWO POTENTIAL PROBLEM AREAS. NIOC BOARD HAS FROZEN CONSIDERATION OF NEW GAS PROJECTS FOR AGREEMENT AREA UNTIL SECONDARY RECOVERY NEEDS ASSESSED. BRAZELL COMMENTED THAT NEW OPEC PRICING POLICY EFFECTIVELY SCRAPS SOME KEY PRICING PROVISIONS OF NEW AGREEMENTS AND MENTIONED THAT COMPANY PRINCIPALS WERE MEETING IN LONDON OCTOBER 23 TO DISCUSS THE NEW PRICES. END SUMMARY.

2. CONSORTIUM MEMBERS TEAM LED BY BRAZELL OF TEXACO CAME BY OCTOBER 23 TO BRIEF AMBASSADOR AND ADCM ON TWO DAYS OF MEETINGS JUST COMPLETED WITH NIOC ON 1974 BUDGET FOR AGREEMENT AREA OPERATIONS AND INVESTMENT FOR THE OIL SERVICE CO. OF IRAN (OSCO). BRAZELL NOTED THIS WAS FIRST TIME MEMBERS HAD MET AS GROUP WITH NIOC UNDER NEW AGREEMENT, AND THAT FROM NOW ON SUCH

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MEETINGS WILL BE HELD TWICE A YEAR FOR BUDGET PLANNING AND

REVIEW.

3. MEMBERS EXPRESSED SATISFACTION WITH MEETINGS AND BELIEF THAT ENOUGH AGREEMENT EXISTS TO PERMIT SMOOTH WORKING RELATIONSHIPS BETWEEN TWO SIDES. HE NOTED TWO AREAS WHERE PROBLEMS COULD ARISE: A) EMPHASIS AND TIMING ON SECONDARY RECOVERY, AND B) GAS. ON THE FORMER BRAZELL SAID NIOC, ON BASIS OF VERY PRELIMINARY RESULTS OF RESERVOIR STUDIES NOW UNDERWAY, BELIEVES MASSIVE GAS INJECTION IS NECESSARY. FINAL RESULTS ARE EXPECTED AROUND THE FIRST OF THE YEAR, SO MEMBERS' PLAN FOR PRESENT IS TO ATTEMPT TO SLOW NIOC DOWN. ON GAS, BRAZELL CLAIMED MEMBERS NOW EAGER TO IMPLEMENT 50-50 ARRANGEMENTS OF NEW AGREEMENT, BUT SPOKE WITH SOME CONCERN OF TRANSCO PROJECT, MASSIVE JAPANESE PETROCHEMICALS PROJECT, AND OTHERS (SEE TEHRAN'S A-104 OF JUNE 13, 1973, PP. 21-23).

4. COMMENT: CLEARLY MEMBERS ARE CONCERNED AT WHAT APPEARS TO BE VERY REAL POSSIBILITY THAT NPC AND NIGP WILL COMMIT ALL AVAILABLE GAS TO VARIOUS PROJECTS BEFORE MEMBERS CAN TAKE ADVANTAGE OF GAS PROVISIONS OF NEW AGREEMENT. HE NOTED HOWEVER THAT OSCO IS NOW UNDER INSTRUCTIONS TO EXPLORE FOR GAS AS ASSIDUOUSLY AS FOR OIL. EMBOFF ASKED BRAZELL AFTER MEETING WHETHER IN FACT MEMBERS WERE READY TO PROPOSE PROJECTS. BRAZELL'S REPLY SEEMED TO INDICATE THAT WHILE MEMBERS FELT NEED TO PROTECT GAS RIGHTS SO AS NOT TO IMPAIR THEM ELSEWHERE AND NOW CONSIDERED GAS EXPORT PROJECTS PROFITABLE, NEVERTHELESS THEY HAVE NOT YET PREPARED PROPOSALS. END COMMENT.

5. BRAZELL ALSO INFORMED US THAT THE NIOC BOARD VOTED RECENTLY TO FREEZE ALL CONSIDERATION OF NEW GAS PROJECTS UNTIL SECONDARY RECOVERY DECISIONS ARE TAKEN, BUT ADDED THAT HIGHER OFFICIALS MAY HAVE DIFFERENT VIEW. HE MENTIONED THAT ANOTHER MEMBERS' TEAM WILL COME IN NEXT FEW DAYS TO STUDY FINANCIAL, PARTICULARLY CASH FLOW PROBLEMS, BUT ANTICIPATES NO DIFFICULTY.

6. MEMBERS' TEAM AND AMBASSADOR BRIEFLY DISCUSSED NEW OPEC PRICING POLICY. BRAZELL COMMENTED SOMEWHAT BITTERLY THAT THIS POLICY SCRAPS NEW AGREEMENT'S LANGUAGE TO EFFECT THAT PRICES WOULD BE BASED ON TEHRAN AND SUBSEQUENT AGREEMENTS. HE NOTED THAT NEW AGREEMENT'S QUOTE BALANCING MARGIN UNQUOTE WILL PROBABLY

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HAVE TO BE REVISED UPWARD AFTER ARAMCO AND SAG REACH NEW AGREEMENT ON BUY-BACK PRICES.
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